

MULTIMEDIA



UNIVERSITY

STUDENT IDENTIFICATION NO

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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 3, 2017/2018

BFN3204 – CREDIT ANALYSIS AND LENDING MANAGEMENT

(All sections / Groups)

**4TH JUNE 2018
2.30 p.m. – 4.30 p.m.
(2 Hours)**

INSTRUCTIONS TO STUDENTS

1. This Questions paper consists of 2 pages with 3 Questions only.
2. Attempt **ALL** questions. The distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided.

QUESTION 1 (40 MARKS)

On September 15, 2008, Lehman Brothers filed for bankruptcy. With USD639 billion in assets and USD619 billion in debt, Lehman's bankruptcy filing was the largest in history, as its assets far surpassed those of previous bankrupt giants such as WorldCom and Enron. Lehman was the fourth-largest U.S. investment bank at the time of its collapse, with 25,000 employees worldwide.

In 2003 and 2004, with the U.S. housing boom well under way, Lehman acquired five mortgage lenders, including subprime lender BNC Mortgage and Aurora Loan Services, which specialized in Alt-A loans (made to borrowers without full documentation). Lehman's acquisitions at first seemed far-sighted; record revenues from Lehman's real estate businesses enabled revenues in the capital markets unit to surge 56% from 2004 to 2006, a faster rate of growth than other businesses in investment banking or asset management. Lehman reported record profits every year from 2005 to 2007. In 2007, the firm reported net income of a record USD4.2 billion on revenues of USD19.3 billion.

Lehman's demise also made it the largest victim of the U.S. subprime mortgage-induced financial crisis that swept through global financial markets in 2008. Lehman's collapse was a seminal event that greatly intensified the 2008 crisis and contributed to the erosion of close to USD10 trillion in market capitalization from global equity markets in October 2008 which is the biggest monthly decline on record at the time.

Source: Investopedia, 11th December, 2017

Based on the article, please answer the following questions:

- a) What are the cause of Lehman Brothers' failure? (4 marks)
- b) What are the main motives of Lehman Brothers filing for bankruptcy? (8 marks)
- c) What are the differences between prime and subprime mortgage? (8 marks)
- d) In your opinion, can Lehman Brothers avoid such crisis? Critically explain your facts on this issue by applying the 5Cs in lending. (20 marks)

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QUESTION 2 (30 MARKS)

- a) How flexibility and persistence in debt collection will increase the chance of reducing the customers' bad debt? (10 marks)
- b) Describe the type of risks under the credit risks assessment process. (20 marks)

QUESTION 3 (30 MARKS)

- a) Briefly discuss **TWO (2)** companies that under expansion (shake-out) and decline stages. (10 marks)
- b) Do banks provide new loans to the companies that are currently under decline stage? Discuss. (5 marks)
- c) Describe **THREE (3)** monitoring tools of account receivables. (15 marks)

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